



# Television Broadcasts Limited

*(Incorporated in Hong Kong with limited liability)*

Stock Code: 511

## ANNOUNCEMENT OF RESULTS

### FOR THE SIX MONTHS ENDED 30 JUNE 2006

#### HIGHLIGHTS

- Turnover decreased from HK\$1,913 million to HK\$1,887 million, a decrease of 1%.
- Cost of sales decreased from HK\$853 million to HK\$836 million, a decrease of 2%.
- Gross profit percentage increased from 55.4% to 55.7%.
- Profit attributable to equity holders decreased from HK\$545 million which included a gain arising from the change in fair value of financial assets of HK\$149 million (the “Change in Value”) to HK\$470 million, and earnings per share decreased from HK\$1.25 to HK\$1.07, a decrease of 14%.
- If the Change in Value were excluded, profit attributable to equity holders would have increased from HK\$396 million in 2005 to HK\$470 million in 2006, and earnings per share would have increased from HK\$0.90 to HK\$1.07, an increase of 19%.
- Interim dividend was declared at HK\$0.25 per share (2005: HK\$0.25 per share).

The Directors of Television Broadcasts Limited (the “Company” or “TVB”) are pleased to announce the unaudited interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2006.

**CONDENSED CONSOLIDATED INCOME STATEMENT  
FOR THE SIX MONTHS ENDED 30 JUNE 2006**

	Note	Unaudited	
		Six months ended 2006 2006 HK\$'000	Six months ended 2005 2005 HK\$'000
Turnover		<b>1,887,112</b>	1,913,040
Cost of sales		<b>(836,048)</b>	(853,445)
Gross profit		<b>1,051,064</b>	1,059,595
Other revenues	4	<b>31,056</b>	15,303
Selling, distribution and transmission costs		<b>(227,856)</b>	(225,849)
General and administrative expenses		<b>(222,912)</b>	(218,704)
Other operating income/(expenses)		<b>21,092</b>	(8,569)
		<b>652,444</b>	621,776
Change in fair value of financial assets at fair value through profit or loss		-	148,778
Operating profit	5	<b>652,444</b>	770,554
Finance costs		-	(970)
Share of losses of			
Jointly controlled entities		-	(4,245)
Associates		<b>(86,601)</b>	(98,873)
Profit before income tax		<b>565,843</b>	666,466
Income tax expense	6	<b>(96,365)</b>	(115,266)
Profit for the period		<b>469,478</b>	551,200
Attributable to:			
Equity holders of the Company		<b>469,964</b>	545,357
Minority interest		<b>(486)</b>	5,843
		<b>469,478</b>	551,200
Earnings per share for profit attributable to equity holders of the Company during the period	7	<b>HK\$1.07</b>	HK\$1.25
Dividends	8	<b>109,500</b>	109,500

**CONDENSED CONSOLIDATED BALANCE SHEET**  
AS AT 30 JUNE 2006

	Note	30 June 2006 Unaudited HK\$'000	31 December 2005 Audited HK\$'000
<b>ASSETS</b>			
Non-current assets			
Property, plant and equipment		1,824,790	1,896,100
Leasehold land		186,132	188,416
Intangible assets		161,936	161,003
Interest in associates		220,897	245,516
Available-for-sale financial assets		3	3
Loan to investee company		6,991	6,676
Deferred income tax assets		22,341	24,358
		<u>2,423,090</u>	<u>2,522,072</u>
Current assets			
Programmes, film rights and movies		465,282	452,586
Stocks		10,608	11,430
Trade and other receivables, prepayments and deposits	9	1,175,668	1,353,966
Tax recoverable		957	2,015
Pledged bank deposits		238	236
Bank deposits maturing after three months		54,280	35,289
Cash and cash equivalents		1,025,777	944,670
		<u>2,732,810</u>	<u>2,800,192</u>
Total assets		<u>5,155,900</u>	<u>5,322,264</u>
<b>EQUITY</b>			
Capital and reserves attributable to equity holders of the Company			
Share capital		21,900	21,900
Other reserves		695,592	700,132
Retained earnings			
- Final dividend	8	-	569,400
- Others		3,550,216	3,090,315
		<u>4,267,708</u>	<u>4,381,747</u>
Minority interest		22,861	23,320
Total equity		<u>4,290,569</u>	<u>4,405,067</u>
<b>LIABILITIES</b>			
Non-current liabilities			
Deferred income tax liabilities		150,720	149,740
Retirement benefit obligations		17,522	18,503
		<u>168,242</u>	<u>168,243</u>

**CONDENSED CONSOLIDATED BALANCE SHEET**  
AS AT 30 JUNE 2006

	Note	<b>30 June 2006 Unaudited HK\$'000</b>	31 December 2005 Audited HK\$'000
Current liabilities			
Trade and other payables and accruals	10	<b>541,225</b>	643,232
Current income tax liabilities		<b>155,864</b>	104,680
Short-term provisions		-	1,042
		<u><b>697,089</b></u>	<u>748,954</u>
Total liabilities		<u><b>865,331</b></u>	<u>917,197</u>
Total equity and liabilities		<u><b>5,155,900</b></u>	<u>5,322,264</u>
Net current assets		<u><b>2,035,721</b></u>	<u>2,051,238</u>
Total assets less current liabilities		<u><b>4,458,811</b></u>	<u>4,573,310</u>

## Notes

### 1. Independent review

The interim results for the six months ended 30 June 2006 are unaudited, but have been reviewed by the Company's auditors, PricewaterhouseCoopers, in accordance with Statement of Auditing Standards 700 "Engagements to review Interim Financial Reports" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). An unmodified review report has been issued and is included in the interim report for shareholders. The interim results have also been reviewed by the Audit Committee of the Board.

### 2. Basis of preparation and accounting policies

This unaudited condensed consolidated financial information for the six months ended 30 June 2006 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the HKICPA. The unaudited condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2005.

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2005, except that the Group has adopted the new standards, amendments to standards and interpretations issued by the HKICPA which are effective for accounting periods commencing on or after 1 January 2006.

#### *(a) Effect of adopting new standards, amendments to standards and interpretations*

The following new standards, amendments to standards and interpretations are mandatory for financial year ending 31 December 2006. The Group adopted those which are relevant to its operations.

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 and HKFRS 4 (Amendment)	Financial Guarantee Contracts
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The new standards, amendments to standards and interpretations above do not have material impacts to the Group.

## 2. Basis of preparation and accounting policies (Continued)

### (b) Comparatives

Certain comparative figures have been restated to reflect the change in the classification of turnover as mentioned in 2005 annual report:

- revenue from the production of tailor-made sponsorship programmes was recorded under turnover instead of being set off against the programme costs; and
- income generated from commercial production, merchandising, talent management, facility rental and other services was reclassified from other revenues to turnover.

As a result, the Group's turnover increased by HK\$59,716,000, cost of sales increased by HK\$48,413,000 and other revenues decreased by HK\$11,303,000 for the period ended 30 June 2005, with no change to the Group's profit.

Where necessary, some other comparative figures have been reclassified to conform with changes in presentation in the current period.

## 3. Segment information

An analysis of the Group's turnover and results for the period by business segments is as follows:

	Six months ended 30 June 2006						Total HK\$'000
	Terrestrial television broadcasting HK\$'000	Programme licensing and distribution HK\$'000	Overseas satellite pay TV operations HK\$'000	Channel operations HK\$'000	Other activities HK\$'000	Elimination HK\$'000	
Turnover							
External sales	924,899	295,819	119,190	490,118	57,086	-	1,887,112
Inter-segment sales	4,582	49,610	209	6,614	2,614	(63,629)	-
	<u>929,481</u>	<u>345,429</u>	<u>119,399</u>	<u>496,732</u>	<u>59,700</u>	<u>(63,629)</u>	<u>1,887,112</u>
Segment results	332,795	206,103	13,525	91,733	8,290	(2)	652,444
Share of losses of Associates	-	-	-	(86,601)	-	-	(86,601)
Profit before income tax							565,843
Income tax expense							(96,365)
Profit for the period							<u>469,478</u>

### 3. Segment information (Continued)

	Six months ended 30 June 2005						Total HK\$'000
	Terrestrial television broadcasting HK\$'000	Programme licensing and distribution HK\$'000	Overseas satellite pay TV operations HK\$'000	Channel operations HK\$'000	Other activities HK\$'000	Elimination HK\$'000	
Turnover							
External sales	969,904	285,235	128,761	490,399	38,741	-	1,913,040
Inter-segment sales	303	48,480	-	7,115	3,797	(59,695)	-
	<u>970,207</u>	<u>333,715</u>	<u>128,761</u>	<u>497,514</u>	<u>42,538</u>	<u>(59,695)</u>	<u>1,913,040</u>
Segment results	302,528	187,517	18,672	108,198	4,308	553	621,776
Change in fair value of financial assets at fair value through profit or loss							148,778
Finance costs							(970)
Share of losses of							
Jointly controlled entities	-	-	-	(30)	(4,215)		(4,245)
Associates	-	-	-	(98,873)	-		(98,873)
Profit before income tax							666,466
Income tax expense							(115,266)
Profit for the period							<u>551,200</u>

An analysis of the Group's turnover and segment results for the period by geographical segments is as follows:

	Turnover		Segment results	
	Six months ended 30 June 2006 HK\$'000	2005 HK\$'000	Six months ended 30 June 2006 HK\$'000	2005 HK\$'000
Geographical segments:				
Hong Kong	<b>1,088,656</b>	1,113,955	<b>367,324</b>	357,210
Taiwan	<b>363,736</b>	371,271	<b>74,708</b>	69,672
USA and Canada	<b>103,983</b>	108,560	<b>55,485</b>	56,935
Australia	<b>34,010</b>	34,080	<b>(3,044)</b>	(2,831)
Europe	<b>46,480</b>	49,077	<b>10,225</b>	8,661
Mainland China	<b>68,917</b>	58,176	<b>44,167</b>	35,444
Malaysia and Singapore	<b>165,973</b>	153,702	<b>94,526</b>	84,500
Other countries	<b>15,357</b>	24,219	<b>9,053</b>	12,185
	<u><b>1,887,112</b></u>	<u>1,913,040</u>	<u><b>652,444</b></u>	<u>621,776</u>
Change in fair value of financial assets at fair value through profit or loss			-	148,778
			<u><b>652,444</b></u>	<u>770,554</u>

#### 4. Other revenues

	<b>Six months ended 30 June</b>	
	<b>2006</b>	<b>2005</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Interest income	<b>24,834</b>	9,155
Others	<b>6,222</b>	6,148
	<b><u>31,056</u></b>	<u>15,303</u>
	<b><u><u>31,056</u></u></b>	<u><u>15,303</u></u>

#### 5. Operating profit

The following items have been charged/(credited) to the operating profit during the period:

	<b>Six months ended 30 June</b>	
	<b>2006</b>	<b>2005</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Depreciation - owned property, plant and equipment	<b>129,971</b>	133,747
Depreciation - leased property, plant and equipment	-	1
Amortisation of leasehold land	<b>2,284</b>	2,284
Cost of programmes, film rights, movies and stocks	<b>527,126</b>	519,201
Impairment of goodwill	-	5,894
Net exchange (gain)/loss	<b>(21,092)</b>	2,457
	<b><u>(21,092)</u></b>	<u>2,457</u>
	<b><u><u>(21,092)</u></u></b>	<u><u>2,457</u></u>

#### 6. Income tax expense

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profit for the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

The amount of income tax charged to the condensed consolidated income statement represents:

	<b>Six months ended 30 June</b>	
	<b>2006</b>	<b>2005</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Current income tax:		
- Hong Kong profits tax	<b>73,892</b>	70,795
- Overseas taxation	<b>19,084</b>	15,847
- Under/(over) provisions in prior periods	<b>333</b>	(222)
Deferred income tax relating to the origination and reversal of temporary differences	<b>3,056</b>	28,846
	<b><u>96,365</u></b>	<u>28,846</u>
	<b><u><u>96,365</u></u></b>	<u><u>28,846</u></u>

## 6. Income tax expense (Continued)

Please refer to the disclosure under Contingent Liabilities in the Financial Review section of this Announcement regarding the additional profits tax assessments raised by the Inland Revenue Department of Hong Kong (“IRD”) in respect of the years of assessment 1998/99 and 1999/2000.

## 7. Earnings per share

The earnings per share is calculated based on the Group’s profit attributable to equity holders of HK\$469,964,000 (2005: HK\$545,357,000) and 438,000,000 shares in issue throughout the six months ended 30 June 2006 and 2005.

## 8. Dividends

	<b>Six months ended 30 June</b>	
	<b>2006</b>	<b>2005</b>
	<b>HK\$’000</b>	<b>HK\$’000</b>
Interim dividend, proposed, of HK\$0.25 (2005: HK\$0.25) per ordinary share	<b>109,500</b>	109,500

At a meeting held on 22 March 2006, the Directors proposed a final dividend of HK\$1.30 per ordinary share for the year ended 31 December 2005 amounting to HK\$569,400,000, which was paid on 1 June 2006 and was reflected as an appropriation of retained earnings in these condensed consolidated financial information for the six months ended 30 June 2006.

## 9. Trade and other receivables, prepayments and deposits

	<b>30 June</b>	<b>31 December</b>
	<b>2006</b>	<b>2005</b>
	<b>HK\$’000</b>	<b>HK\$’000</b>
Receivables from:		
Associates	<b>197,152</b>	202,748
Related parties	<b>59,499</b>	39,949
Trade receivables (note)	<b>765,602</b>	892,172
	<b>1,022,253</b>	1,134,869
Less: provision for impairment of receivables	<b>(69,652)</b>	(68,031)
Other receivables, prepayments and deposits	<b>175,516</b>	263,139
Tax reserve certificates	<b>47,551</b>	23,989
	<b>1,175,668</b>	1,353,966

Note:

The Group operates a controlled credit policy and allows an average credit period of forty to sixty days to the majority of the Group’s customers who satisfy the credit evaluation of the Group. Cash on delivery, advance payments or bank guarantees are required from other customers of the Group.

## 9. Trade and other receivables, prepayments and deposits (Continued)

At 30 June 2006 and 31 December 2005, the aging analysis of the trade receivables including trading balances due from associates and related parties are as follows:

	<b>30 June 2006 HK\$'000</b>	31 December 2005 HK\$'000
Current	<b>411,359</b>	405,941
1-2 months	<b>213,588</b>	241,864
2-3 months	<b>108,785</b>	142,271
3-4 months	<b>72,674</b>	107,689
4-5 months	<b>46,706</b>	49,499
Over 5 months	<b>166,857</b>	185,343
	<b>1,019,969</b>	1,132,607
Trade receivables due from:		
Third parties	<b>765,602</b>	892,172
Associates and related parties	<b>254,367</b>	240,435
	<b>1,019,969</b>	1,132,607
Non-trading amounts due from associates and related parties	<b>2,284</b>	2,262
	<b>1,022,253</b>	1,134,869

## 10. Trade and other payables and accruals

	<b>30 June 2006 HK\$'000</b>	31 December 2005 HK\$'000
Trade payables to:		
Associates	<b>8,502</b>	7,692
Related parties	<b>649</b>	237
Third parties	<b>89,744</b>	91,188
	<b>98,895</b>	99,117
Other payables and accruals	<b>442,330</b>	487,239
Payable for financial assets at fair value through profit or loss	-	56,876
	<b>541,225</b>	643,232

## 10. Trade and other payables and accruals (Continued)

At 30 June 2006 and at 31 December 2005, the aging analysis of the trade payables including trading balances due to associates and related parties are as follows:

	<b>30 June 2006 HK\$'000</b>	31 December 2005 HK\$'000
Current	<b>62,137</b>	61,487
1-2 months	<b>28,661</b>	22,211
2-3 months	<b>2,792</b>	8,391
3-4 months	<b>1,198</b>	1,884
4-5 months	<b>388</b>	229
Over 5 months	<b>3,719</b>	4,915
	<hr/> <b>98,895</b> <hr/>	<hr/> 99,117 <hr/>

### INTERIM DIVIDEND

Directors are pleased to declare an interim dividend of HK\$0.25 (2005: HK\$0.25) per share for 438,000,000 issued shares.

The Register of Members of the Company will be closed from 11 September 2006 to 12 September 2006, both dates inclusive, during which period, no transfer of shares will be effected. In order to qualify for the above interim dividend, all transfers must be lodged with the Company's Registrars, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:00 p.m. on Friday, 8 September 2006. Dividend warrants will be despatched to shareholders on 20 September 2006.

### MANAGEMENT DISCUSSION AND ANALYSIS

#### Review of Operations

##### *Operating Results for the Period*

For the six months ended 30 June 2006 (the "Period"), the Group achieved a turnover of HK\$1,887 million (2005: HK\$1,913 million), which represented a decrease of 1%. Cost of sales amounted to HK\$836 million (2005: HK\$853 million), which represented a decrease of 2%. Gross profit for the Period stood at HK\$1,051 million (2005: HK\$1,060 million).

Included in cost of sales were the cost of programmes, film rights, movies and stocks for the Period which amounted to HK\$527 million (2005: HK\$519 million), representing an increase of 2%.

Selling, distribution and transmission costs for the Period amounted to HK\$228 million (2005: HK\$226 million), which represented an increase of 1%. General and administrative expenses amounted to HK\$223 million (2005: HK\$219 million), which represented an increase of 2%.

Other operating income for the Period amounted to HK\$21 million (2005: other operating expenses of HK\$9 million) which was mainly foreign exchange gains. No finance costs were incurred for the Period (2005: HK\$1 million) as the Group did not have any bank loans during the Period.

Share of the losses of an associate, TVB Pay Vision Holdings Limited (formerly known as Galaxy Satellite TV Holdings Limited), decreased from HK\$99 million to HK\$87 million for the Period.

The Group's taxation charge for the Period amounted to HK\$96 million (2005: HK\$115 million), which represented a decrease of 17%.

The profit attributable to equity holders amounted to HK\$470 million (2005: HK\$545 million, which included a gain arising from the change in fair value of financial assets of HK\$149 million (the "Change in Value")), which represented a decrease of 14%. The earnings per share was HK\$1.07 (2005: HK\$1.25).

If the Change in Value were excluded, the profit attributable to equity holders would have increased from HK\$396 million in 2005 to HK\$470 million in 2006, and the earnings per share would have increased from HK\$0.90 to HK\$1.07, which represented an increase of 19%.

## **Business Review and Prospects**

### *Terrestrial Television Broadcasting*

TVB's terrestrial free TV channels, *Jade* and *Pearl*, continued to attain high viewership. *Jade* achieved an average of 85% audience share<sup>1</sup> of the terrestrial Chinese channels during weekday prime time<sup>2</sup>; and *Pearl*, 73% of audience share of the terrestrial English channels during weekly prime time<sup>3</sup>.

The Period has been especially rewarding for TVB's *Jade* in terms of innovations in both drama and non-drama programmes which generated high ratings as well as critical acclaim. Coupled with scheduling moves on weekday evenings, we also have successfully expanded prime viewing hours into the early hours of the morning.

On non-drama programmes, we have created a new wave of game show hits. These include the hilarious "*Beautiful Cooking*" (average rating 30 TVRs<sup>4</sup> and 85% audience share on Sundays) and the game-quizz show "*15/16*" (average rating 29 TVRs and 90% audience share during

---

<sup>1</sup> **Audience Share (%)** is the percentage of ratings of a particular channel over the total ratings of the base channels for a specific period of time. When calculating audience share for free-to-air terrestrial TV channels in Hong Kong, the base would be the combined TV ratings (TVRs) of terrestrial Chinese channels or the combined TVRs of terrestrial English channels.

<sup>2</sup> *Jade's* weekday prime time runs from 7-11p.m.

<sup>3</sup> *Pearl's* weekly prime time runs from 7p.m. to midnight.

<sup>4</sup> **TV Ratings (TVR)** represent the size of audience expressed as a percentage of the total TV population. For 2006, the TV population is 6,426,000, and therefore, 1 TVR represents 64,260 viewers (1 % of the TV population).

weekdays late prime time). Also, we have produced a new docu-travelogue format “*On The Road*” in which the captivating elements of people, culture, destinations inter-played with the personal experiences of celebrity hosts. The series brought critical acclaim as well as good rating (averaged 26 TVRs and 86% audience share, weekdays late prime time).

On drama programmes, besides continuing with the proven forte in creating period epics, kung-fu dramas, action adventures and situation comedy, *Jade* has successfully crafted a variety of comedies which became instant hits and talk of the town. Among these contemporary comedies, “*La Femme Desperado*” became the top rated drama for the Period (average rating 33 TVRs and 88% audience share, and the final episode 37 TVRs and 91% audience share). Most TVB-produced dramas attained an average rating of over 30 TVRs and 80% audience share during prime time.

In the Period, we experienced a decline of 5% in Hong Kong advertising sales with substantial drop in spending on TV advertising from the local property, the slimming centre and the skin care categories.

We devoted efforts in developing two areas of opportunities for revenue growth. The first area is in product sponsorships or product placements, and the second is in developing market share in fast growing categories with traditionally low advertising spending on television. Product sponsorships are featured prominently in our situation comedy “*Welcome To The House*”, broadcast during prime time on *Jade*. As a result of our efforts in developing this form of commercial information, we saw substantial increase in product sponsorship revenue in the Period. Although product sponsorship revenue makes up a small percentage of the total advertising revenue, we see that this area offers room for growth, as we move further in developing product sponsorships in regular dramas, and in game shows.

#### *Programme Licensing and Distribution*

We remained a key supplier of Chinese dramas and programmes to the overseas Chinese speaking markets in spite of competition from Korea and mainland China. Strategically, we are expanding our activities in licensing programmes to pay and terrestrial TV operators with some encouraging results. During the Period, overall revenue from programme licensing and distribution recorded a single-digit percentage growth. This was achieved in spite of the declining video rental and sell-through business, which is affected by piracy and illegal Internet downloading.

We have, from the last quarter of 2005, secured various distribution agreements with Internet portals and video-on-demand service providers. We are exploring and developing more licensing and distribution opportunities through the wireless media and Internet operators worldwide.

#### *Overseas Satellite Pay TV Platforms*

The pay TV market for overseas Chinese remains highly competitive. Whilst both TVB Satellite Platform (“TVBSP”) USA and TVB Australia (“TVBA”) sustained single-digit percentage subscriber growth in the Period, the Chinese Channel Europe’s subscriber base remained flat. TVBA recorded a double-digit percentage growth in advertising revenue. TVBA also recently added an acquired Korean drama channel to the existing 11-channel package, bringing an opportunity to increase the monthly subscription fees. Overall, the combined revenue for the

overseas satellite pay TV platforms achieved similar level as last year, whilst the combined net profit after tax showed a 15% increase, after excluding a one-off income booked in 2005 which was related to the migration of the channels of TVBSP to DirecTV.

### *Channel Operations*

#### (a) Taiwanese Channels

The overall advertising market in Taiwan declined during the Period as a result of the gloomy economic outlook and political controversies. Nevertheless, *TVBSN*, our news channel, maintained the leadership position and gained in ratings. The consequent positive impact on advertising revenue, however, was somewhat neutralized by advertisers taking a cautious approach under such market condition. Despite the general market decline, our advertising income for the Period was successfully maintained at the same level as last year.

Our entertainment channel also benefited by the continuing success of our local production “*Lady First*”. This unique prime time variety show features lifestyle and beauty topics, captivating young female viewers. The Group has successfully published a quarterly magazine as a spin-off from the programme. Circulation of the latest issue of this magazine was in excess of 140,000 copies. More importantly, the cross-promotional effect helps attract more audience, as seen by the improved ratings.

In November 2005, the Government Information Office in Taiwan issued a regulatory demand alleging that TVBS’ shareholding was not in compliance with the law and imposed a fine of NT\$1,000,000. We are pleased to advise that our appeal against this administrative ruling was successful. The matter is now concluded with the refund of the fine of NT\$1,000,000 to the Group.

#### (b) TVB8 and Xing He

The subscription revenue of TVB8 and Xing He from Malaysia and China was steady during the Period. Advertising revenue from Xing He improved during the Period as a result of its outstanding TV ratings on the Malaysian pay TV platform.

Advertising revenue of TVB8 also improved as more local events were developed for TVB8 in Malaysia. In May 2006, we successfully co-produced with ASTRO ALL ASIA NETWORKS plc (“ASTRO”) in Malaysia the talent-quest entertainment show “*Minutes to Fame*” which was originally produced and broadcast on *Jade* last year. This programme received enthusiastic response from the local Chinese audience, with the TV audience share rising from 14% to 46% amongst ASTRO’s Chinese TV channels.

#### (c) Supply of Channels to TVB Pay Vision Limited

The supply of the six channels by TVB to Galaxy Satellite Broadcasting Limited (now renamed as TVB Pay Vision Limited) on a non-exclusive basis under the amended and restated channel supply agreement dated 29 June 2005 was terminated on 31 May 2006. TVB offered eight channels to all the pay TV licensees in Hong Kong for bidding, as required under its domestic free television programme service license. Following the

successful bidding by TVB Pay Vision Limited of these channels in April 2006, the basis of supply was changed from a non-exclusive basis to an exclusive basis.

The eight exclusive channels now comprise two 24-hour news channels *TVBN* and *TVBN2*; TVB's classic drama channel *TVB Classic*; a channel reporting on the entertainment scene *TVB Entertainment News Channel*; acquired Asian drama channel *TVB Drama*; a channel dedicated to lifestyle in general *TVB Lifestyle* (which was renamed from *TVB Health*); the children's channel *TVB Kids*; and the music channel *TVBM*.

With the exception of *TVB Drama*, the contents of the other supplied channels carry a strong local production element. In addition, two channels from TVBS in Taiwan, namely *TVBS Asia* and *TVBS News* are being supplied to TVB Pay Vision Limited on a non-exclusive basis.

### *Other Businesses*

#### (a) Investment in Hong Kong Pay TV Platform

Galaxy Satellite TV Holdings Limited was renamed as TVB Pay Vision Holdings Limited in April 2006. The Group is interested in 49% of the capital of TVB Pay Vision Holdings Limited.

In addition to distributing through satellite master antenna television and broadband service provided by Hutchison Global Communication Limited, TVB Pay Vision Limited secured an additional distribution agreement with PCCW Limited's NOW Broadband TV platform in February 2006. A bundle of TVB Pay Vision Limited's channels is made available to subscribers of the NOW platform. The bundle includes *TVBS Asia*, *TVBS News* and the eight exclusive channels supplied by TVB, and various other channels making up a total number of 20 channels.

#### (b) Internet and Mobile Content Supply

We now license our contents to all of the four licensed 3G mobile operators in Hong Kong. We continue to be aggressive in the sales of our contents to handheld telephone devices, and have recently extended our content distribution to the Sony PlayStation Portable platform.

Income from the sale of programmes to 3G and Internet broadband operators, and advertising on our website ([www.tvb.com](http://www.tvb.com)) grew by a single-digit percentage. Our efforts in cost control, coupled with the growth element, helped the net profit to show a double-digit percentage growth.

#### (c) Publishing Operations

Various actions taken last year in restructuring our operations have borne fruit and helped advertising revenue to grow by a double-digit percentage.

Competition remains fierce for the weekly magazine market which has negatively impacted on our circulation. Our circulation revenue, however, was maintained, due to the increase in the unit selling price of the magazine which was brought in at the last quarter of last year.

Printing cost under a new contract which commenced in September 2005 increased by more than 20% and this had a substantial adverse impact on the net profit.

However, it is expected that the impact of the increased printing cost on profits in the second half of 2006 will not be so strong.

### *Digitisation*

The implementation of our digital terrestrial television (“DTT”) network plans is in progress. Town planning approval and land grant have been obtained respectively in May and June 2006, for the development of the Temple Hill main DTT transmission station. We are hopeful in meeting the DTT target launch date of the end of 2007 set by the Government.

Conversion to high definition television (“HDTV”) production will begin in late 2006/early 2007 under a plan to equip a drama studio with HDTV equipment. Updating of more studios will follow.

## **Financial Review**

### *Capital Assets, Investment, Liquidity and Debts*

As at 30 June 2006, non-current assets of the Group stood at HK\$2,423 million, which represented a decrease of 4% from 31 December 2005 of HK\$2,522 million. The net decrease was attributable to the decrease in the net book value of property, plant and equipment.

Cash and bank balances as at 30 June 2006 amounted to HK\$1,080 million, an increase of 10% over last year end (31 December 2005: HK\$980 million). About 23% of the cash balance was maintained in overseas subsidiaries for their daily operation. The Group’s financial position remains strong with no bank borrowings as at 30 June 2006. Cash and cash equivalents held by the Group were principally in Hong Kong Dollars, Renminbi, US Dollars and New Taiwan Dollars.

Trade and other receivables, prepayments and deposits decreased from HK\$1,354 million to HK\$1,176 million, which represented a 13% decrease from the position at the end of last year. Specific provision had been made, where appropriate, to cover any potential bad and doubtful debts.

Trade and other payables and accruals decreased from HK\$643 million to HK\$541 million which represented a 16% decrease from the position at the end of last year. This was principally attributable to the reduction in the amount payable for a financial asset (51% equity interest in TVB Pay Vision Holdings Limited) as the remaining unpaid share capital which amounted to HK\$56 million was paid up in March 2006.

As at 30 June 2006, capital commitments of the Group amounted to HK\$621 million (31 December 2005: HK\$183 million) which represented an increase of 239%, principally as a result of the expenses to be incurred for digitisation as stated above.

### *Contingent Liabilities*

As at 30 June 2006, there were guarantees given to banks amounting to HK\$9 million (31 December 2005: HK\$9 million) for banking facilities granted to an investee company.

In March 2005 and February 2006, the Group received additional profits tax assessment notices from the IRD for the years of assessment 1998/99 and 1999/2000 on the profits generated by the Group's programme licensing and distribution business carried out overseas. The total amounts of the additional assessments of profits tax for 1998/99 and 1999/2000 were HK\$98 million and HK\$99 million respectively. The Group has been granted a holdover of these additional assessments by the IRD.

The Group has filed objection to these additional assessments. The Group believes that the objection is well-founded, and is determined to defend the Group's position vigorously. On this basis, the Group is of the view that no additional tax provision is necessary.

### *Exposure to Fluctuations in Exchange Rates and Related Hedges*

The Group's foreign currency exposure mainly arises from trade receipts from overseas customers. The Group will closely monitor its foreign exchange risk and enter into forward exchange contracts to hedge its foreign exchange exposure when necessary. No forward exchange contract was entered into by the Group during the Period under review.

## **PURCHASE, SALE OR REDEMPTION OF SHARES**

During the six months ended 30 June 2006, the Company has not redeemed any of its ordinary shares. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's ordinary shares.

## **CORPORATE GOVERNANCE**

During the six months ended 30 June 2006, the Company has been in compliance with the Code Provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Exchange") except that the Executive Chairman is not subject to retirement by rotation at least once every three years (code provision A.4.2).

Pursuant to Article 114(d) of the Company's Articles of Association, the Chairman is exempted from retirement by rotation. The Board considers that the Chairman, being the founder of the Company, possesses a wealth of experience which is essential to the Board and contributes to the continued stability of the Company's business.

Save for the above, none of the Directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30 June 2006, in compliance with the Code.

## **AUDIT COMMITTEE**

The majority of the Audit Committee members are appointed from the Independent Non-executive Directors, with the Chairman having appropriate professional qualifications and experience in financial matters.

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited condensed consolidated financial information for the six months ended 30 June 2006 before they were presented to the Board of Directors for approval.

The interim results for the six months ended 30 June 2006 have not been audited, but have been reviewed by the Company's external auditors.

## **INTERIM REPORT**

The interim report of the Company for the six months ended 30 June 2006 containing all the information required by paragraphs 46(1) to 46(9) of Appendix 16 of the Listing Rules is also published on the Exchange's website ([www.hkex.com.hk](http://www.hkex.com.hk)) and the Company's website ([www.tvb.com](http://www.tvb.com)).

On behalf of the Board  
**Run Run Shaw**  
Executive Chairman

Hong Kong, 24 August 2006

As at the date of this announcement, the Board of Directors of the Company comprises the following Directors:

Sir Run Run Shaw, G.B.M. (Executive Chairman)

Dr. Norman Leung Nai Pang, G.B.S., LL.D., J.P. (Executive Deputy Chairman)

Mona Fong (Deputy Chairperson and Acting Managing Director)

Edward Cheng Wai Sun, J.P.\*

Dr. Chow Yei Ching, G.B.S.

Ho Ting Kwan

Chien Lee\*

Christina Lee Look Ngan Kwan

Dr. Li Dak Sum, DSSc. (Hon.), J.P.\*

Kevin Lo Chung Ping

Robert Sze Tsai To\*

Anthony Hsien Pin Lee (Alternate Director to Christina Lee Look Ngan Kwan)

\* Independent Non-executive Directors